

Briefing Notes

“The role of remuneration committees and setting executive pay”

Monday 14 March 2022

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Introduction

In this session, Martin Wheatley, the chair of the Remuneration and Selection Committee (as of last board meeting, called the Business Effectiveness and People Committee) at Greatwell Homes, facilitated a discussion on board composition and executive pay sharing insights. This encompassed experience from the journey that Greatwell Homes have been on over the last six years looking at capability, diversity and customer voice.

Greatwell Homes Background.

Greatwell Homes have stock across North Northamptonshire and West Northamptonshire developing around 100 homes a year. Martin explained that the Business Effectiveness and People Committee act on behalf of the board. They act with the board’s delegated authority and make recommendations to the board on recruitment, looking at board membership, skills, appraisals and compensation and then dealing also with executive performance management, appraisals and pay. Operating annually, they set objectives and make decisions on bonuses. As of the latest board meeting, the committee will also have strategic oversight of day-to-day people management and HR issues. Ultimately, they also review the board’s effectiveness.

Board Composition

In 2016, like many housing associations with a stock transfer heritage, the board had six independent members, four councillors (nominated by the Borough Council of Wellingborough (the “Council”) and two tenants. Their **diversity** was poor with 3/12 being women and 0/12 from the BAME community. Now, in 2022 there are ten members who are appointed based on skills. One member happens to be a tenant but was not appointed because she is a tenant. 3/10 are woman and 3/10 are from the BAME community.

Originally the board only controlled half of its memberships. For independent members, there was a recruitment process, but the rest were nominated (all white men over 55), so the board couldn’t control who they were. There was also ambiguity about councillor membership, which cut across their fiduciary duty as board members.

After the 2016 Housing and Planning Act went through, the board decided in principle in 2017 to move away from having Council and tenant board members. They stopped being controlled by the Council, enabling them to shift to a new way of doing things. They developed a **skills matrix** and recruited in place of the Council and tenant board members to develop a new style board from Autumn 2018. Rules still provide for up to twelve members, but their policy is ten. Appointments are for 6 years with the ability to push up to 9 years to manage departures.

The board forged a new relationship with the Council and set up a new infrastructure for meetings between the board and councillors and between the executive team and the Council so that despite having a strong partnership with the Council, there is no confusion about being connected to the Council. This allows board members and executives to retain independence and be heard in meetings without it seeming a subordinate relationship. Martin also said that although they overhauled tenant representation on the board and have moved away from appointing tenants to the board in principle, they do have a board member who happens also to be a tenant but that was not the reason for her appointment. Nevertheless, **customer voice remains a focus in decision making**.

How to build a rich developed board.

1. Insight and professional skills:

- Consider skills/insights needed to provide strategic leadership and challenge the executive then refine this into a skills matrix.
- Assess skills/insight of current members and then use this in board appraisals and in recruitment. Review the matrix annually.
- There is an example matrix on the slides.
- The background of professions is important to consider but not everything as you need community insight, understanding and other mechanisms to listen widely to customers and community.

2. Reflecting diversity of society and protected characteristics:

- This is necessary to have an insight into the community so make it a “must have” not an option

- “Widen the gate, don’t lower the fence” - it’s not about lowering the standard of capability, it is about being more welcoming to a wider range of people.
- Make this clear in recruitment material; guaranteeing interviews for those with protected characteristics and reached out to professional networks
- If the right impression is given, it creates a “virtuous spiral” of more people feeling they could take on that position and fit in. As you go through each round of recruitment, you will succeed in attracting more diverse people to apply. Once you have a reasonable mix, you can then assess skills.

3. Cognitive diversity:

- Assess existing members and then take this into account. You can use frameworks such as ICS linked in the slides.
- The model splits people into a two-way matrix on thinking and feeling and extroversion/introversion.
- If one energy, such as “red energy”, is dominant on the board, the strengths are that members are competitive, goal-oriented, strong-willed and risk-takers, however, this means you need to recognise weaknesses on listening, over-confidence and pushing too hard so that you balance this with other energy.

Executive Compensation.

As of 2022, the structure changed from an executive team of four, to two executive directors who have a compliance focus and are professionally qualified to do so: one in terms of finance and one in terms of asset health & safety. A head of service may report to both on different projects, which means for flexible reporting and enables the executive team to focus on strategy and reduce cost. Executive pay is set by:

- Taking external advice every two years on the going rate and setting it at the median, in accordance with their policy. The package comprises of basic income, bonuses and benefits in kind.
- Weighing up the fact it’s a social charity business, with low-income customers who essentially pay the executives’ wages but on the other hand, competent people are needed which involves an element of attracting, retaining and recognising talent.
- Interpreting the external data, thinking through structure and responding to changes e.g. reducing car allowance for a team who are now in the office less.
- Setting bonuses in the best way to motivate and signal the board’s priorities. The customer’s voice can be built into target setting and assessing whether targets have been achieved.
- Martin commented that managing executive pay in an age of inflation, particularly if inflation exceeds 10% is going to be a challenge.

Q&A Session

- Attendees wondered how much thought was put into the median, as over time this leads to a pay drift upwards. Ultimately organisations would need to agree for this to change.
- They queried how comfortable customers were in being involved in performance bonuses. Martin explained that customer voices are built into whether operational targets are met such as responsiveness to queries and if this has been achieved. They are generally glad to be a part of the conversation.
- It was discussed that it's not just about bringing certain demographics into the room but training existing executives to develop capabilities in ED&I, so that their voices are heard. Internal and external training can help with this.

Breakout room session

Comments, observations and any issues on executive pay setting.

- Attendees felt that too much focus may be placed on the median. Instead, it's important to look at the size of the organisation, programme, complexities and impact on the ground. It can't be a straight average but rather a comparison with similar organisations of a similar composition.
- Some felt that as a social purpose organisation, differentials across roles needed far more consideration. Care workers are paid less than Lidl and may be on benefits. It's not right to let executive pay run wild whilst people working for them can't pay their rent and go to food banks. If execs are unhappy, they could leave for the private sector. Recruiting for a shared value is really important.
- Many felt that the same big consultants were being used to review chief executive salaries and it's important to let that *inform* the setting of pay rather than dictating it. Just because it's always been that way doesn't mean that it is right.
- It was agreed that the bigger question is what challenge can board members provide? The importance was noted of ensuring that board members have the skills and expertise to appoint the right advisers and challenge and interrogate the advisers and executives on the information that is presented to them on benchmarking and proposed pay.
- It was commented that one association with a new chief exec said there would be no bonus unless the individual delivered something outside the remit of their day-to-day job. This may not have the best reaction and senior people may feel undervalued compared to other organisations.
- It was noted that the Notting Hill bonus scheme is set up so that if everyone hits the target, everyone gets paid the same. It can be a holiday for the higher paid but life changing for cleaners.
- In terms of the split of different elements of salary, consider whether the cost-of-living increase is commensurate with the rest of the organisation? Executive pay should be considered in comparison to the rest of the organisation.
- Some organisations have considered a ceiling for top and bottom rate of pay for CEOs
- It was commented that one living wage employer has done some work on introducing a flat rate of pay increase rather than a percentage increase to counteract the issue

of significant executive pay increases. For example, a 3% increase applied to an executive earning £150k is a hefty increase when compared with the 3% applied to an employee who earns £20k.

- It was commented that the 6-year appointment rule has made things harder. It means you need to look at appointing 1 board member a year for succession planning. However, getting the right voices in the room requires a larger board.

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Register for our next session

A conversation with Jane Everton

Monday 28 March 4 - 5pm

Join a conversation with Jane Everton to discuss the recently released Levelling Up White Paper and pose your questions.

Speaker: Jane Everton, Deputy Director Department for Levelling Up, Housing & Communities

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